OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 371 of the 132nd G.A.

Status: As Introduced

Sponsor: Rep. Merrin

Local Impact Statement Procedure Required: Yes

Subject: Exempts from property tax the increase in value of land that is subdivided into residential lots with streets and utilities installed, until construction of dwellings starts

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

- By providing a tax exemption for the increase in value of subdivided parcels until residential building construction starts, the provisions of the bill could result in loss of revenue to school districts and other units of local government.
- The tax exemption would also end when the property is sold. The new owner could not receive an exemption unless the land is again subdivided.
- The magnitude of tax revenue losses might range into the low millions of dollars but appears indeterminate.

Detailed Fiscal Analysis

The bill exempts from property taxation any increase in taxable value of land subdivided for construction of residences, until construction starts on the residence buildings or the land is sold. This tax exemption is not ended by construction of streets, sidewalks, curbs, or driveways or by installation of utility lines. The taxable portion of value is based on the value of the property prior to presentation to the county auditor of a plat subdividing the original property from which the subdivided parcel is subdivided.

These provisions have the potential to result in loss of property tax revenue. The number of building permits for new units gives a fairly accurate picture of Ohio home building, as the data published by the U.S. Census Bureau cover 93% of the state's population for one-, two-, and three-unit residential structures, and 100% for structures with four or more units.[1] Permit issuance will not match new construction exactly, as

[1] U.S. Census Bureau, "Percent of Population in Permit-Issuing Places," downloaded on September 22, 2017, from www.census.gov/construction/bps/pdf/pct_pop.pdf.

some structures for which permits have been obtained may not be started or completed, and some structures in permit-issuing areas may be started without permits. In 2016, permits were obtained in Ohio authorizing construction of 22,816 housing units, including 15,221 single-family homes. Lots on which single-family homes are to be built would be more likely to qualify for the tax exemption in the bill, because of the requirement for exemption that the property be subdivided. With an apartment building, the structure might be built on a single parcel, though perhaps the site where a future apartment building is to be constructed could be subdivided, if the bill becomes law, in order to qualify for the exemption.

The number of permits issued varies widely over time in Ohio, from a high for recent years of 53,041 in 2003 to a low of 13,343 in 2009, a 75% decline. During the past 15 years, from 2002 through 2016, the median number of permits issued was for 19,965 housing units, in 2014. The average number of permits issued was for 26,131 housing units, reflecting the higher rate of permit issuance in 2006 and earlier, prior to the 2007-2009 recession.

Issuance of building permits in Ohio is highly concentrated in urban and suburban areas. The effect of tax exemption under the bill on school districts and other units of local government would be similarly concentrated. In 2016, six predominantly urban and collar counties – Franklin, Delaware, Hamilton, Warren, Butler, and Lorain – accounted for more than half of total housing units for which construction was authorized by permit issuance.[2] The top 15 counties, in four clusters around the largest cities in the state, accounted for more than three-fourths of permit issuance. The pattern is similar for issuance of permits for construction of single-family housing, with nine counties accounting for more than half of these permits in 2016.

Whether revenue loss would occur for a particular parcel that is part of a subdivided property would depend, under the bill, on the timing of (1) presentation to the auditor of the subdividing plat and (2) commencement of construction. For parcels on which construction commences in the same tax year that the plat is submitted to the auditor, no tax exemption would result. If construction starts in a subsequent year, the revenue loss, if any, for a particular parcel would depend in part on the timing of these events relative to the sexennial reappraisal or triennial update in the county where the parcel is located. The county auditor, in establishing taxable values, may consider the sale price of a property in an arm's length transaction, and may but is not required to change property valuations between the years of reappraisals or updates.[3] Between such years, if a higher value is not ascribed by the auditor to a subdivided residential parcel prior to the start of construction, no revenue loss would result from creation of the exemption under the bill. With a one-year lag between presentation of the

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[2] The term "collar county" is used here to denote a county immediately adjacent to a county in which all or most of the largest city in an urban area is located.

[3] R.C. 5713.03(B).

subdividing plat and the start of construction, an intervening reappraisal or update would occur about one-third of the time on average. With a longer lag, an intervening reappraisal or update becomes more likely. Lags between initial development of a subdivision and the start of construction of residential structures on individual parcels may occur with any sizable project, and also tend to lengthen when the market turns down unexpectedly.

The revenue loss that might result from enactment of the provisions of the bill could be substantial but appears indeterminate. LSC is not aware of published sources for the statewide value of the land to which the bill would apply before and after subdivision and improvement with streets and utilities, but before the start of building construction. Nevertheless, for a range of assumptions that seem plausible, we can infer that the cost might be more than minimal, and could amount to several millions. The following figures are intended only to be illustrative, and are not a definitive analysis of the fiscal effects of the bill.

One published indicator of the value of undeveloped land is the market value attributed to land enrolled in the current agricultural use valuation (CAUV) program. For the nine counties that accounted for more than half of single-family housing permits in 2016, the market value of CAUV land averaged about $6,500 per acre. This figure can be expected to understate the acquisition cost of raw land for subdivision into parcels for housing developments, as it would include land that is less desirable for such development because of location within these counties, as well as more desirable land. The latter plausibly would tend to have higher market value than average CAUV land in the counties.

A brief review of listings for land in Delaware County on September 21, 2017, shown on Realtor.com identified several that appeared to be residential property, at per-acre costs ranging from about $13,000 to $125,000. These are asking prices of property listed for sale. Lot sizes on offer with these particular listings range from 0.24 acres to more than two acres. Other land offered on the website included larger lots at locations where they might be sold for commercial or industrial use.

The Delaware County Auditor's website on that date had numerous parcels listed as owned by a major home builder, with market values for the land only ranging from $17,200 to $76,500 identified in a brief search, for building lots ranging from 0.209 acres to 0.442 acres. The higher valuations reflect annual equalization in 2016, and the increase in value from that prior to 2016 is an indication of the amount that would be exempted under the bill.

Combining the data on 2016 building permits with these various market value figures, converting to taxable values by multiplying by 35%, and multiplying by 68 mills (average statewide effective tax rate on residential real property in 2016) implies a potential tax revenue loss ranging to a few million dollars. Revenue losses might be higher if residential building activity continues to strengthen.

Residential building is highly cyclical, and the revenue losses that would result from enactment of the bill could vary considerably from year to year. Schools and other local governments would bear the loss. Statewide, school districts account for about 64% of taxes on residential real property, and other units of local government receive about 36%.

The bill's provisions would apply starting in the tax year that ends on or after the bill's effective date, if it is enacted.

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